United Nations A/C.5/66/SR.17

General Assembly
Sixty-sixth session

Official Records

Distr.: General
8 February 2012

Original: English

Fifth Committee

Summary record of the 17th meeting
Held at Headquarters, New York, on Thursday, 10 November 2011, at 3 p.m.

Chair: Mr. Tommo Monthe ..... (Cameroon)
Chairman of the Advisory Committee on Administrative and Budgetary Questions: Mr. Kelapile

Contents

Agenda item 134: Proposed programme budget for the biennium 2012-2013 (*continued*)

International Public Sector Accounting Standards

This record is subject to correction. Corrections should be sent under the signature of a member of the delegation concerned *within one week of the date of publication* to the Chief of the Official Records Editing Section, room DC2-750, 2 United Nations Plaza, and incorporated in a copy of the record.

Corrections will be issued after the end of the session, in a separate corrigendum for each Committee.

11-58810 (E)

Please recycle

The meeting was called to order at 3.20 p.m.

Agenda item 134: Proposed programme budget for the biennium 2012-2013 (*continued*)

International Public Sector Accounting Standards (A/66/151, A/66/308 and Add.1, A/66/379 and A/66/536)

1. **Mr. Ramanathan** (Officer-in-Charge, Office of Programme Planning, Budget and Accounts), introducing the fourth progress report of the Secretary-General on the adoption of the International Public Sector Accounting Standards (IPSAS) by the United Nations (A/66/379), which covered the period from 1 August 2010 to 31 August 2011, said that the first section of the report reviewed the progress in implementation of IPSAS across the entire United Nations system. Following the successful implementation of IPSAS by the World Food Programme (WFP) in 2008, eight more organizations had issued their first IPSAS-compliant financial statements as at 31 December 2010 and had received an unqualified audit opinion, which was an important first step in the adoption of the Standards. A further 14 organizations were actively pursuing preparations for IPSAS implementation. Although the process was not without challenges, they had all indicated that they were on target for adoption dates ranging from 2011 to 2014 and they were actively exchanging experiences, aided by the High-level Committee on Management Task Force on Accounting Standards and the system-wide IPSAS project team, in order to anticipate and address potential challenges to timely implementation.

2. As for the adoption of IPSAS at the United Nations itself, covered in the second section of the report, the target was to deliver IPSAS-compliant financial statements for the period ending June 2014 for peacekeeping operations by 30 September 2014 and for the period ending December 2014 for other United Nations Secretariat operations by 31 March 2015. The report outlined the challenges in meeting the two deadlines, and how they were being addressed, taking into account the Board of Auditors' recommendations in its report on progress in the implementation of IPSAS (A/66/151). While aware of the significant risks, the Secretary-General remained resolutely committed to meeting those targets.

3. Significant progress had been made over the past year towards finalizing the framework for IPSAS-compliant accounting policies, which was also needed to support the Umoja design phase. The momentum of the IPSAS project had shifted towards implementation, which had been welcomed by the Board of Auditors and was evidenced, for example, by the increased focus of the United Nations IPSAS Steering Committee on the risk-based management of implementation. With regard to the concern expressed by the Board of Auditors that IPSAS adoption presented a particularly high risk for the United Nations ow[illegible] to uncertainties over the implementation of Umoja, as well as the number and complexity of the entities involved, several steps had been taken to progressively mitigate the risks. For example, a risk management framework, which drove the Steering Committee's review of all implementation planning and execution, had been implemented by the Secretary-General for identifying and managing risks at each office away from Headquarters and mission, as well as across the entire project. Subsequent to the issuance of the Board of Auditor's report, the Umoja project had articulated a plan to deploy Umoja in two phases, which was expected to mitigate the risks to the implementation of IPSAS. The implementation plan was being adapted in the light of that new deployment strategy and timeline. However, bearing in mind the significant challenges inherent in any major enterprise resource planning (ERP) deployment project, contingency plans and workaround solutions, involving a combination of manual and semi-automated processes from existing systems, were also being developed, in close consultation with the Umoja project, to mitigate risks from potential slippages in the deployment of Umoja. While those plans would support IPSAS compliance for a limited period of time, they were clearly not sustainable beyond initial implementation. The Advisory Committee had made some important observations and recommendations in that regard.

4. While the IPSAS project still relied on centrally coordinated change management and project management, local IPSAS support teams in offices away from Headquarters and field missions were beginning to take ownership of their own implementation activities, with the Department of Field Support coordinating field implementation. Pre-implementation activities had also been launched in a number of offices through coordinated field validation exercises, which had triggered the detailed implementation work required at the individual office

level to ensure readiness for IPSAS. More such activities were planned in the coming months.

5. As had been recommended by the Board of Auditors and the Advisory Committee, a benefits realization plan should be developed. While some work had already been done in that area, including in relation to the potential challenges involved in realizing some benefits, the Secretary-General was aware of the need to synergize the efforts of the IPSAS and Umoja initiatives in order to ensure full benefits realization. He was also working closely with the Board of Auditors and with other United Nations system organizations to leverage their experience for better realization of benefits.

6. The Management Committee had intensified its oversight of the IPSAS project, with a quarterly review of progress, and, given the strong interdependency of the IPSAS and Umoja projects, it now considered jointly the respective reports on their progress.

7. **Mr. Liu** Yu (Chairman, Audit Operations Committee, United Nations Board of Auditors), introducing the report of the Board of Auditors on the progress in the implementation of IPSAS as at 30 June 2011 (A/66/151), said that the purpose of adopting IPSAS was to provide stakeholders with greater insights into entities' performance and financial position, and management with better information to maintain control, drive cost-effective decision-making, and secure long-term financial sustainability. Having examined the progress of the United Nations, including peacekeeping operations, and a range of its funds and programmes, the Board's overall conclusion was that there were a number of critical risks to achieving IPSAS implementation on time and realizing the benefits envisaged by the General Assembly. Without urgent and effective action to address those risks, it was unlikely that IPSAS would be successfully implemented on target within the United Nations and its peacekeeping operations. In the Board's view, while the 2012 target was achievable for the remaining entities, there were significant and pressing risks to be managed in the intervening period. The achievement of unmodified audit opinions alone would not signal successful IPSAS implementation; such benefits as improved decision-making and more cost-effective delivery were also important in that regard and could only be secured through engagement across all operational areas and significant cultural change. Furthermore, they would not be delivered immediately but only as a result of careful management over time. The Board, emphasizing the importance of adequate planning to realize such benefits, noted the absence in nearly all entities of appropriate change management arrangements to achieve the necessary transformations, as well as the lack of evidence that operational areas understood the new information that would be available to them through IPSAS, or were considering how it could be used to improve the cost-effectiveness of their operations.

8. With regard to the United Nations and its peacekeeping operations, while the IPSAS adoption strategy was dependent on the successful implementation of Umoja, delays with that project meant that it would not now be completed in time to support IPSAS as envisaged. The Board had seen no firm plans as to how the Umoja project would be reprioritized to support IPSAS implementation and no firm contingency plans in the event that such reprioritization proved impossible or only partially possible. However, the United Nations was aware of that situation and was beginning to address the associated risk. Without a decision on Umoja and the preparation of a clear overarching implementation plan, the Board could not provide firm assurance that the United Nations was on track to adopt IPSAS by 2014. Other identified risks to implementation were the lack of a formal risk management framework for IPSAS adoption at the time of the review, although a risk register had subsequently been established; inadequate preparations to gather data to value assets and arrive at meaningful opening balances; the lack of confidence of the United Nations IPSAS Implementation Project Team that it had the resources to prepare "dry run" financial statements with real accounting data; and insufficient time for operational areas to implement the policies and associated processes correctly and consistently, in order to achieve compliant financial statements in the first year of implementation. There was little evidence of deployment of the change management resources and methodologies needed to support IPSAS implementation and achieve the cultural changes needed to embed accruals-based concepts. Nor was there much evidence of a communication strategy and vision of what needed to be achieved and, in particular, how to use the improved information that would be available following IPSAS adoption to support improved accountability, the delivery of more cost-effective ways of working, and enhanced decision-making.

9. As for the United Nations funds and programmes, significant work remained to be done to collect, cleanse and migrate data for IPSAS implementation and most organizations had not yet finalized all accounting policies, which might result in staff in field offices not being trained and familiar with the new policies and procedures necessary for IPSAS implementation. Furthermore, fully resourced and expert implementation teams were not in place in some entities. In particular, the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) lacked a specific project leader or dedicated implementation team, the Office of the United Nations High Commissioner for Refugees (UNHCR) was overly reliant on external consultants, and the United Nations Population Fund (UNFPA) was still recruiting for some key positions in its implementation team. The United Nations Joint Staff Pension Fund needed to obtain the approval of its Pension Board to continue applying the Financial Regulations and Rules to its accounting and financial reporting process in a manner that allowed it to be IPSAS-compliant by 2012. For several entities, even if IPSAS-compliant financial statements were delivered by 2012, it was unlikely that the intended benefits of IPSAS adoption would be realized without significant further delay, owing to the absence of appropriate benefits realization strategies and change management processes.

10. **Mr. Kelapile** (Chairman of the Advisory Committee on Administrative and Budgetary Questions), introducing the related report of the Advisory Committee (A/66/536), said that the Advisory Committee had encouraged the Secretary-General to continue to gather, analyse and disseminate information on challenges faced, lessons learned and benefits realized by those United Nations organizations that had implemented IPSAS in 2010, and to draw on those experiences to further refine the implementation plans and strategies of the organizations that had yet to transition to IPSAS.

11. While the Advisory Committee recognized the importance of contingency planning to produce the first IPSAS-compliant financial statements by the target dates using a combination of temporary solutions, in the event of further delays in implementing Umoja, it remained concerned that a significant amount of resources might be devoted to implementing unsustainable temporary solutions that might not be sufficient to ensure successful IPSAS implementation and might also divert vital resources away from the implementation of Umoja. It had therefore emphasized the need for strict oversight over the implementation of the IPSAS project and effective mechanisms for the rapid resolution of issues on a day-to-day basis, so as to contain costs, avoid further delays and ensure that a viable solution was put into place. It had further emphasized the need for full collaboration and coordination of activities among the actors involved in project implementation.

12. The Advisory Committee had welcomed the first report of the Board of Auditors on progress in the implementation of IPSAS (A/66/151), which provided the General Assembly with valuable information on key issues. The Advisory Committee considered that the Board of Auditors had an important role to play in providing ongoing advice and guidance to the implementing entities. Close collaboration between the Board and the concerned entities should be sustained throughout the implementation process to ensure successful transitions to IPSAS, including through the Board's review of "dry run" financial statements in the year prior to full IPSAS implementation.

13. The Advisory Committee agreed with the Board that the achievement of unmodified audit opinions alone would not signal successful IPSAS implementation, other benefits being equally important. It therefore expected the Secretary-General to develop a benefits realization plan, as recommended by the Board of Auditors, and encouraged him to actively pursue efforts to develop a business culture focused on improved performance and effectiveness as the Organization prepared for the transition to IPSAS.

14. **Mr. Biraud** (Joint Inspection Unit), introducing the report of the Joint Inspection Unit (JIU) entitled "Preparedness of United Nations system organizations for IPSAS" (A/66/308), said that, given its expertise on the whole United Nations system and its independence, JIU was particularly well-placed to monitor and compare the implementation of IPSAS across all the United Nations system organizations. However, none of the Inspectors had specific accounting expertise, and the project could therefore not have been launched without the contribution of Mr. Jean François des Robert, a recognized specialist in the implementation of IPSAS in various developing countries and countries in transition, who had modestly agreed to work for the project as a Research Officer. His death, less than three months after assuming that role, had led to work on the report being

suspended for over a year, until a new staff member with sufficient accounting expertise could be found. That experience had highlighted the benefits of appointing an outside expert as an Inspector, as had become standard in the evaluation field. However, the JIU budget still made no provision for such an arrangement.

15. The report had been prepared to meet the needs of the accounting specialists in the United Nations system organizations, as well as those of a wider public, including Member States and Secretariat officials of the organizations in question. It sought to monitor simultaneously the progress of the 22 concerned organizations of the United Nations system, in addition to the work of the Task Force on Accounting Standards. Although the subject matter covered by the report was very broad, it had been necessary to condense it considerably in order to comply with the standard length requirements for JIU reports. The report provided an overview of progress towards IPSAS within the United Nations system and sought to explain, inter alia, why financial reporting needed international accounting standards, why UNSAS did not meet fully the requirements of the United Nations system, what the main benefits, risks and costs of the transition to IPSAS were, and how IPSAS implementation would affect the organizations concerned. Instead of describing each of the 22 projects in significant detail, the example of WFP had been presented in an annex to the report as the first and only successful transition to IPSAS to date. In the report, the Inspectors had compared the status of the respective projects in 2010, on the basis of replies to the questionnaires circulated by the Task Force and JIU, and had set out 16 best practices for implementing a smooth transition to IPSAS, many of which were based on the experience of WFP, as well as that of pioneer organizations such as the Organization for Economic Cooperation and Development (OECD) and the European Commission.

16. The review showed that the risks, costs and complexity of the transition to IPSAS, its duration and the importance of its links with other administrative reforms had been understood only in a very abstract way and had been underestimated when the in principle decisions on the adoption of IPSAS had been taken. It had also confirmed that the success of any major administrative reform was contingent upon the commitment of all stakeholders.

17. The report recommended that the legislative bodies of United Nations system organizations should request their respective executive heads to issue regular progress reports on the implementation status of IPSAS, a requirement that, in the case of the United Nations, was met by the reports issued by the Secretary-General and the Advisory Committee; that the legislative bodies should provide the support, staffing and funding required to ensure successful and effective transition to IPSAS; and that the executive heads should ensure that the set of 16 best practices identified in the report were applied. While some organizations had already implemented certain of those practices, the report could serve as a benchmark for others, as confirmed by the Secretary-General in the note (A/66/308/Add.1) transmitting his comments and those of the United Nations System Chief Executives Board for Coordination (CEB) on the JIU report, where he indicated that the CEB members had welcomed the analysis contained in the report, as well as its recommendations, and had accepted the proposed benchmarks, with a few reservations.

18. The Inspectors welcomed the comments of the Board of Auditors and the Secretary-General on the JIU report, contained in their respective reports (A/66/151 and A/66/379) and noted that a member of the IPSAS Board from the private sector had referred positively to the set of 16 best practices at a recent conference on IPSAS implementation.

19. **Mr. Herman** (United Nations System Chief Executives Board for Coordination), introducing the note by the Secretary-General (A/66/308/Add.1) transmitting his comments and those of CEB on the JIU report (A/66/308), said that the CEB members had found much of value in the report and welcomed the comprehensive nature of its analysis. As a result of the close coordination that had existed between JIU and the agencies of the United Nations system during the report preparation process, the latter largely accepted the JIU recommendations. Many agencies had indicated that they had either adopted, or were in the process of adopting, many of the proposed benchmarks. The only areas of resistance related to best practice 15, in respect of which some agencies felt that internal control testing belonged within the internal audit function, and best practices 13 and 16, owing to concerns about the practicality of implementation.

20. **Mr. Suárez Salvia** (Argentina), speaking on behalf of the Group of 77 and China, said that the Group, which had always been supportive of measures

aimed at enhancing the efficiency, effectiveness, transparency and accountability of the United Nations through improved financial reporting and better controls, commended those organizations that had successfully implemented IPSAS. Bearing in mind that the target for adoption of IPSAS by the United Nations Secretariat had been postponed to 2014, the Secretariat should take prompt and effective action to address the key areas of concern raised the Board of Auditors in order to meet the implementation target and to plan for contingencies and specific risk-mitigation measures. The Group would request additional information in informal consultations on the level of involvement of the United Nations oversight bodies and the system-wide team in the Secretariat's efforts to implement IPSAS by 2014.

21. The Group expected the Secretary-General to fully implement the recommendations of the Board of Auditors and the Advisory Committee, including those on the preparation of model financial statements and production of clear plans for a "dry run" set of accounts with real accounting data; establishment of fully resourced and expert IPSAS implementation teams; and establishment of a clear plan for data collection, cleansing and migration for IPSAS implementation. A comprehensive training strategy for staff was also needed prior to the implementation of IPSAS in order for the United Nations Secretariat to benefit from the experience of the early implementers and minimize the considerable risks involved in the transition process. The Secretary-General should continue to coordinate all aspects of the transition to IPSAS, as well as continue to gather, analyse and disseminate information on the challenges faced, lessons learned and benefits realized by the organizations that had already implemented IPSAS, so as to further refine the implementation plans and strategies of those organizations that had yet to transition to the Standards.

22. **The Chair** said that he wondered whether sufficient attention had been given to the question of what elements should be carried over from the United Nations System Accounting Standards (UNSAS) to IPSAS. Secondly, recalling that the Umoja system was the intended vehicle for the transition to IPSAS, he wondered whether the delay in deploying that system reflected an absence of appropriate change management arrangements or a reluctance to embrace the greater management transparency and accountability that IPSAS would bring.

23. **Mr. Biraud** (Joint Inspection Unit) said that the transition to IPSAS in fact required the United Nations organizations to accept a pre-existing accounting framework rather than deciding what elements should be incorporated in it. By taking the decision to adopt IPSAS, they had made themselves subject to the authority of the IPSAS Board, a body on which the United Nations now had some representation. Much work was still required to interpret IPSAS and adapt to the new system. In particular, the Task Force on Accounting Standards was discussing how to interpret the rules in a concrete and standardized way. The JIU report highlighted both the risks and the opportunities of IPSAS implementation. Work was currently under way to raise awareness of the advantages of IPSAS among those responsible for making the transition. He agreed with the Chair that a change driver was needed to ensure that sufficient progress was made. The decision to implement IPSAS had already been taken; it was now important to take full advantage of its benefits.

The meeting rose at 4.30 p.m.